

# CALIFORNIA FRANCHISE TAX BOARD

Legal Ruling No. 266

September 17, 1964

## EXEMPTION: INTEREST ON BONADS OF ALASKA-HAWAII

### Syllabus:

While Alaska and Hawaii were territories, both issued interest bearing bonds. When Alaska and Hawaii became states each assumed the debts and liabilities of the territory which preceded it. Alaska Const., Art. XV, Sec. 18; Hawaii Const., Art. XVI, Sec. 3. In addition, Hawaii approved all prior bond acts. Hawaii Const., Art. XVI, Sec. 4.

Does the interest on bonds issued by Hawaii and Alaska prior to the time they became states remain exempt under the Personal Income Tax Law?

The interest on bonds of territories is exempt. Reg. 17130(b) [17137b] regulations to 1954 law. The reason for the exemption is that territories are instrumentalities of the Federal government and taxing the bonds would therefore impair the credit of the Federal government. When the territories become states, bonds issued prior to statehood remain exempt regardless of whether or not the state assumes the obligation to pay the bondholders. Farmers and Mechanics Bank of Minneapolis v. Minnesota, 232 U.S. 516, 58 L. Ed. 706 (1941). The court reasons that to tax the bonds because Congress later allows the territories to become states would decrease the value of the bonds, and thereby impair the credit of the Federal government and the obligation of the contract.

The interest on the territorial bonds therefore remains exempt under the Personal Income Tax Law.